This record is a partial extract of the original cable. The full text of the original cable is not available.

090708Z Jun 05

ACTION EAP-00

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INFO  LOG-00   NP-00    AID-00   AMAD-00  CA-00    CIAE-00  INL-00
      DINT-00  DODE-00  ITCE-00  DOTE-00  WHA-00   DS-00    EB-00
      EXME-00  E-00     FAAE-00  FBIE-00  UTED-00  FOE-00   VC-00
      FRB-00   H-00     TEDE-00  INR-00   LAB-01   VCE-00   AC-00
      NEA-00   NSAE-00  OES-00   OMB-00   NIMA-00  EPAU-00  CAEX-00
      GIWI-00  ACE-00   SP-00    SSO-00   SS-00    STR-00   SA-00
      FMP-00   BBG-00   EPAE-00  IIP-00   DSCC-00  PRM-00   DRL-00
      G-00     NFAT-00  SAS-00   SWCI-00    /001W
                  ------------------FD42E4  090714Z /38
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FM AMCONSUL HO CHI MINH CITY
TO SECSTATE WASHDC 1624
INFO AMEMBASSY HANOI
ASSOCIATION OF SOUTHEAST ASIAN NATIONS
AMEMBASSY BEIJING
AMEMBASSY NEW DELHI
AMEMBASSY BRASILIA
AMEMBASSY QUITO
DEPT OF TREASURY WASHDC
US CUSTOM SERVICE WASHDC
USDA WASHDC
USDA FAS WASHDC
USDOC WASHDC
NSC WASHDC

UNCLAS HO CHI MINH CITY 000622

SIPDIS

SENSITIVE

DEPARTMENT PLEASE PASS USTR, ELENA BRYAN
STATE FOR EAP/BCLTV AND EB/TPP/ABT/BTT
USDOC FOR 4430/MAC/ASIA/OPB/VLC/HPPHO
TREASURY FOR OASIA
BANGKOK ALSO FOR CUSTOMS

E.O. 12958: N/A
TAGS: ETRD EFIS EAGR ECON PREL VM
SUBJECT: U.S. CUSTOMS BONDS HIT SHRIMP INDUSTRY HARD

REF: HCMC 528

¶1. (SBU) SUMMARY: According to Vietnamese shrimp exporters, a new bond requirement issued by U.S. Customs may effectively close the U.S. market to Vietnamese shrimp. These recently-implemented bond regulations require U.S. importers to pay as much as USD 20 million in bonds, up from USD 50,000, in order to import Vietnamese shrimp subject to anti-dumping duties into the United States. ConGen contacts say they view the bond regulations as a non-tariff barrier. They raised the issue during the May 6 visit of the Deputy Secretary to Ho Chi Minh City and may plan to raise it again in the context of Prime Minister Phan Van Khai's U.S. visit. END SUMMARY.

¶2. (SBU) In the wake of the U.S. dumping case against Vietnam and other shrimp-exporting countries, Vietnam's shrimp producers and exporters breathed a sigh of relief, as the final 4.13 to 25.76 percent anti-dumping duties on Vietnam were lower than originally anticipated. However, local exporters believe that recently implemented changes to U.S. Customs bond requirements may effectively close Vietnamese shrimp exporters out of the U.S. market for the foreseeable future. According to industry representatives, these new requirements are outlined in an "Amendment to Bond Directive 99-3510-004 for Certain Merchandise Subject to Antidumping/Countervailing Duty Cases," which was posted on the U.S. Customs website in July 2004. In the amendment, Customs reports that changes to bond requirements for agriculture and aquaculture products subject to anti-dumping duties are necessary to comply with the Continued Dumping and Subsidy Offset Act (also known as the Byrd Amendment).

¶3. (SBU) Mr. Nguyen Van Kich, Vice-Chairman of the Vietnam Association of Seafood Exporters and Producers (VASEP) and General Director of seafood processing company Cafatex, described the bond procedure and the new rule's adverse effect on Vietnam's shrimp industry to EconOff. (NOTE: VASEP represents companies who produce 70 percent of Vietnam's seafood. Kich chairs VASEP's Shrimp Committee, which organized Vietnam's response to the anti-dumping lawsuit. END NOTE.) According to Kich, in the past, U.S. shrimp importers paid bonds of around USD 50,000 to bond insurance companies as a payment guarantee for U.S. Customs duties and fees. The July 2004 Amendment, which Kich said took effect in March, now requires importers to use the previous year's total imports from a Vietnamese company as the basis for estimating anti-dumping duties for that company and calculating the bond on each future shipment. For example, if a Vietnamese company exported USD 100 million in shrimp to the United States in 2004 and that company received an anti-dumping duty of 5 percent, then a U.S. importer would be responsible for paying a USD 5 million bond in advance in order to

import any shrimp at all from that company. If that company was instead subject to a 25 percent anti-dumping duty, then the bond requirement would jump to USD 20 million.

¶4. (SBU) Not only have the bond requirements jumped dramatically, but bond insurance companies - through which importers are obliged to submit their bonds - have raised their fees. Kich noted that in the past, though bonds tended to be a flat fee of USD 50,000, the insurance companies allowed importers to pay a small fraction of that amount up front to get shipments into the country. Now that the rules have changed, the bond insurance companies are demanding the entire bond be paid up front - plus a fee of 20-30 percent for the insurance company - before they will allow the shrimp to be brought into the United States.

¶5. (SBU) The result, said Kich, is that Vietnamese shrimp exports to the United States have slowed dramatically. In the first two months of 2005, shrimp exports to the United States dropped by 40 percent compared to the same period last year. According to Kich, Vietnam exported USD 500 million in shrimp to the United States in 2003, USD 400 million in 2004 and is projected to export only USD 200 million in 2005. U.S. importers have told Kich they will now buy shrimp from countries not subject to the anti-dumping lawsuit, rather than face such onerous fees. (NOTE: According to our calculations based on USITC data, Vietnamese exports of shrimp in the categories covered by the anti-dumping case have fallen about

20 percent in the first quarter of 2005 as compared to the same period in 2004. END NOTE.)

¶6. (SBU) These developments have also affected shrimp prices in Vietnam. Kich reported that shrimp prices have dropped by 30-40 percent since the beginning of 2005. At the initiation of the anti-dumping lawsuit in 2003, shrimp averaged VND 160,000 per kilo (about USD 10/kilo at current exchange rates). In 2004, shrimp averaged VND 100,000 (about USD 6.30/kilo). Now shrimp prices hover around VND 60,000/kilo (about USD 3.80/kilo).

¶7. (SBU) Kich forecasted a crisis in Vietnam's shrimp industry, which he said employs around 2 million people, if the situation remains unchanged. While many shrimp exporters are developing markets in other countries, this will not completely make up for lost U.S. business. Already Mekong Delta newspapers are reporting farm closures. In the city of Can Tho, 20 of 90 farmers in one district have gone out of business. In Ca Mau province, shrimp farms are reportedly operating at 60 percent capacity.

¶8. (SBU) Kich called the new bond requirements a non-tariff barrier (NTB) that is worse than a regular tariff. At least with a tariff, Kich said, companies can still try to compete on price. The bond requirements, on the other hand, close the U.S. market completely since importers do not want to bear the Customs fees. Kich also observed that the bond policy creates an incentive for some exporters in Vietnam and the other countries subject to the lawsuit to resort to transshipment to get their product into the United States via countries not subject to anti-dumping duties.

¶9. (SBU) COMMENT: This new bond issue and its effect on Vietnam's shrimp industry was raised during a business roundtable held with the Deputy Secretary May 6. (reftel) Kich said he and other exporters will urge the GVN to take up the matter with the USG. Given the importance of the industry to Vietnam in terms of export revenues and employment, it is possible this issue may be raised during Prime Minister Phan Van Khai's June 21 visit to Washington.

WINNICK

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